

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D. C.

August 4, 1959

My dear Mr. Chairman:

Reference is made to your letter of July 8, 1959, requesting the views of the Bureau of the Budget on S. 2162, "To provide a health benefits program for Government employees," presently before your Committee.

Since 1954 this Administration has advocated, and now continues to advocate, the establishment of a voluntary health insurance program for Federal employees. Specific programs were proposed in 1954, 1955, 1956 and 1957, each proposal being an attempt to formulate a better program. In 1958 the Administration gave priority to pay increase legislation and recommended that action on employee health insurance legislation be postponed. It should be noted that during these years Government annual expenditures for Federal employee pay and benefits have been increased by substantial amounts due to increases in pay rates under both the statutory and prevailing wage systems, increases in annuities under employee retirement systems, the liberalization of the premium pay benefits system, the liberalization of the Civil Service Retirement System and the establishment of such new benefits as the allowances for uniforms and the group life insurance and unemployment compensation systems.

Following this Administration's basic policy that the Federal employee should be compensated for the services he renders to the Government under a pay and benefit system that is reasonably comparable in structure and level with the compensation provided by progressive private employers, the Bureau of the Budget favors legislation authorizing a Federal employee health insurance program with benefits providing financial protection against the cost of health care reasonably comparable with those benefits provided in private employment. Although the existing Federal employee fringe benefit system has been reported to be already more liberal than the typical private business fringe benefit system, it does not include a program of health insurance benefits. Adding these benefits to the existing system will further increase the total value of the Federal employee fringe benefit package. Under these circumstances it is essential that the value added by the new health insurance benefit program be kept in line with private industry health benefits.

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The new health insurance benefits should be made available only to employees who earn them by rendering services to the Government under the new program after it becomes effective. Compensation in the form of pay and benefits is paid to employees for services rendered. Former employees who rendered service under a compensation system which did not include these health insurance benefits have already been paid in full for their services in the form of pay and benefits already received or in vested rights to payment of future benefits already earned. Whenever salary or benefits are adjusted an effective date must be selected. It may be unfortunate that some former employees must miss eligibility by narrow margins, and a retroactive approach is often suggested. However, a retroactive approach actually creates an inequity where none would otherwise exist. For while prospective entitlement is firmly linked to services rendered under a compensation agreement, retroactive entitlement is pure gratuity. If any former employee is granted this special gift, then any other former employees who are excluded by the particular retroactive date selected will feel they merit equal consideration. The new health insurance benefits should therefore be provided only to employees who render service to the Government after a prospective effective date.

S. 2162, now before your Committee, while including several desirable features, falls short of providing an acceptable employee health insurance program in two major respects: the cost to the Government is higher than justifiable in establishing a health insurance benefits program reasonably comparable with existing private business programs, and the organization and administrative system is defective.

The cost sharing feature of the bill would require the Government to pay one-half of the premiums rather than one-third, as established for the Federal Employee Group Life Insurance program in 1954. The first year cost of the bill to the Government is estimated in the Senate Committee Report to be \$145.3 million, which must be increased by \$2.5 million in the first year and \$25 million in the fifth year to include the Government share of the cost of annuitant coverage. This amount is substantially higher than the \$80 million figure which is actually needed as one-third of the cost, including the cost of annuitant coverage, of a sound program providing a benefit level in line with private industry plans, and providing a sound experience basis for accumulating the facts on which an appropriate Federal employee health benefits program can evolve for the future. It would be prudent for the Government to seek the patterns and level of health benefit protection best suited to the problems of the Federal employee, the benefits that will yield the most effective return for the premium dollar. Experience elsewhere strongly suggests that an effective program will evolve best from a conservative base. Sound development can occur as the genuine needs of the covered employees are clearly

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defined through experience, and a pattern of effective health care benefits grows up to meet these needs. The bill should be modified to clearly provide this sound, conservative beginning.

The organization and administrative provisions of S. 2162 should be modified. The Civil Service Commission will advise you in full detail concerning these modifications. This report will comment only on three organization provisions: the Advisory Council, the Civil Service Commission reorganization and the submittal of proposed contracts and regulations.

The functions and membership of the proposed Advisory Council are not designed to aid sound administration. The Council's assigned functions include making investigations of the administration of the program, and receiving reports direct from carriers and employees. Such assignment would confuse the Commission's authority in its relations with carriers, employing agencies and employees. The Civil Service Commission should be unmistakably responsible for the success of this program. The Council's functions should be advisory only. The Council's membership should reflect its character as an element of a Federal employee benefit program, and should include appropriate Government officials, ex officio, together with employees, or their representatives, who are contributing and participating in the health insurance system. There is no need to create a statutory organization based on an assumption that the Civil Service Commission may refuse to seek the advice of responsible experts in the health insurance field. Neither is there basis for assuming that the Commission may foster a program which will be deleterious to the public generally, nor that the Commission will fail to give adequate consideration to all parties, including all qualified prospective carriers. The Government's lack of experience in administering a health insurance program for its employees and the asserted absence of facts upon which to base decisions does not argue for splitting responsibility in this program between the Civil Service Commission and the Advisory Council. Rather, it requires placing a special responsibility on the Commission to proceed prudently, to develop factual experience as rapidly as feasible, and to build soundly, and it places a special responsibility on those who contribute to the design of the authorizing statute to provide the clearcut authority and proper organization that will be so essential. Section 12 should be modified accordingly.

The proposed statutory reorganization of the Civil Service Commission would interfere, to no defined purpose, with the existing statutory power and responsibility of the Chairman of the Civil Service Commission to determine the internal organization of the Commission's business and to designate officers and employees to perform assigned functions. It is especially important in this new program to avoid a rigid organization prescription that could hamper the proper adjustment of administration with experience. Section 13 should be deleted from the bill.

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The requirement that the Commission submit proposed contracts and regulations to the Senate and House Committees on Post Office and Civil Service is unnecessary to assure energetic administration by the Commission and is clearly improper if it is intended to provide the Committees with a power of prior review of executive action. Subsection (a) of section 16 should be deleted from the bill.

S. 2162, as passed by the Senate, includes several features which are desirable in a program of Federal employee health benefits, but it seeks to provide a level of benefits at an unnecessarily high cost, and it provides an unsound system and organization for administration. Unless S. 2162 is modified as to cost and administrative provisions, as above noted, the Bureau of the Budget would not favor enactment of the bill.

Sincerely yours,

(signed) Maurice H. Stans

Director

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